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ABSTRACT

This report indicates that a proper accounting for the size of the arts industry should be adjusted to incorporate "unmeasured" industry "revenues" stemming from contributions of time and commodities as well as the willingness of the public to pay more in taxes to support the arts. The contributions of the arts industry will be understated if significant non-economic benefits are omitted. Such contributions include the arts as a kind of "basic research" leading ultimately to economically successful "applied" cultural products such as those that have captured the imagination of the entire world through mass media presentation. They also include the types of community benefits that have led many corporations to support the arts as a way of attracting and keeping a higher quality workforce and making marketing inroads with targeted consumer communities. The so-called "secondary" economic benefits of the arts industry may well exceed even the substantial benefits more typically stemming from their role as a generator of jobs and spending in the economy. (MM)

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October 1993

A PERSPECTIVE ON THE ARTS INDUSTRY AND THE ECONOMY

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I. HISTORY OF ECONOMIC RESEARCH ABOUT THE ARTS

While always recognized as an important cultural and aesthetic aspect of our society, the arts industry has recently become an area of economic interest. Economists have conducted a variety of studies, ranging from discussions of specific sectors of the industry (**e.g.**, "the pipe organ industry") to more inclusive definitions (**e.g.**, "the entertainment industry"). Yet, while these different scattered studies have brought the arts into the economic arena, they have failed to reach a consensus on what exactly defines the arts industry.

Early Studies

While economists first began to seriously analyze the arts in the mid-1960's, the late 1970's saw a dramatic increase in the attention paid to the arts and culture by the economics profession.[1] On two occasions **(1980 and 1986)**, the President of the American Economic Association has included "Arts Economics" among the **topics of invited papers for presentation** at the annual Association meeting and publication in the Papers and Proceedings of the American Economic Review.[2] **In 1992 the Seventh International Conference on Cultural Economics took place, and "Cultural Economics" has been added as an explicit subfield of research as categorized by the Journal of Economic Literature.**

Despite this increasing attention, economists have been reluctant to consider arts activity as just another economic enterprise akin to the production of autos or the distribution of medical products. In fact, the unique features of the arts have been a major reason for their appeal to a discipline of alleged "dismalists." Yet, any review of the economics research of this fascinating sector will reveal that most economists have reveled in their ability to apply the tools of economic analysis to the enigmas presented by the arts. Many studies have attempted in numerous ways to define the arts industry (or aspects of the arts industry) and to discuss its behavior in the economy of the United States and other countries.

Even a brief sampling of these studies indicates just how **widespread** the study of the arts as an industry has become. In The Economics of Cultural Industries (1984), economists examine "The Mass Media and the Cost Disease," as well as "Competition and Concentration in the Contemporary Film Industry."[3] Book publishing is the focus of "The Structure of the American Book Publishing Industry," and also "University Presses and Recent Economic Instability," while other papers report on the "keyboard instrument industry," and the "classical music industry."[4]

The traditional performing art forms of symphonic music, opera, the theater and dance have, of course, received much attention and are the primary focus of the two most prominent books in the field: the pathbreaking Performing Arts: The

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Economic Dilemma by Baumol and Bowen (1966), and the more theoretical The Economics of the Performing Arts written by Throsby and Withers (1979).[5] **Most recently, The Economics of Art and Culture by James Heilbrun and Charles M. Gray (1993), is principally focused** on the live performing arts with some consideration of painting and sculpture and the associated institutions of art museums, galleries, and dealers. The performing arts**(defined in the customary way to include theater, orchestras,opera and dance)** also have a prominent place along with television, movies, and music recording in Harold Vogel's more broadly conceived Entertainment Industry Economics, a book that comfortably juxtaposes sports with amusement parks and gaming and wagering with the new developments in computerized entertainment.[6] Vogel, however, does not explicitly discuss museums and other segments of the visual arts - strange omissions given the broad sweep of his analysis.

The non-profit and voluntary segments of arts activity receive prominent attention in the newer academic journals Voluntas (the international journal of voluntary and non-profit organizations) and Non-Profit Management & Leadership (sponsored by the Mandel Center for Nonprofit Organizations and the Centre for Voluntary Organization). The "for-profit" arts sectors of book publishing and printing, music publishing, radio and TV broadcasting, motion picture production and distribution, theatrical productions, records and tapes, and photography are among the "copyright industries" receiving public policy attention in the quest for well-defined and stable "intellectual property rights."[7] **Such public policy concern should come as no surprise. For example, a September 1992 issue of Business Week identified** services as the "engine pulling the trade surplus," and "American popular culture" as among the most important of those export services.[8] In fact, international trade in cultural goods and optimal government trade policy were among the topics of concern at the Sixth International Conference on Cultural Economics in Sweden.[9] Trade in cultural products has been an issue in the recent NAFTA and GATT negotiations as well.

Economic Impact Studies and Methods

In addition to **the aforementioned studies**, entire books are devoted to the "economic impact of the arts" and the proper methods for its measurement.[10] Using the language of "economic impact studies" economists study the "primary direct impact" of increased economic activity caused by the injection of arts spending into a particular region or nation. This "primary direct impact" is calculated using data on the magnitude of arts output, employment, and spending.

It is customary, however, when focusing on the economic impact of a particular industry to attribute to that industry the

"second, third, and fourth round effects of the industry's primary spending. These additional impacts include a "primary indirect impact," an "induced direct impact," and an "induced indirect impact." Simply put, the "total" impact can also be thought of as the total direct plus the total indirect impacts, or the direct impact adjusted by a so-called "multiplier" that captures the magnitude of all of these second, third, and fourth round economic effects.

The "first round" effect, or primary direct impact, is measured either by looking at the total revenues of an industry or at its total expenditures. While this can get confusing, a simple example will clarify what is meant by these terms. A commonly used measure of the primary direct impact of the non-profit performing arts (theater, dance, symphony orchestra, opera and "other music") is their total revenues, which were $3.4179 billion in 1987.[11] Looking at expenditures, or the wages, rents, purchases of supplies, taxes and other spending made possible by these revenues, is the alternative way of measuring the primary direct impact of that sector of the arts industry. Due to the fact that this example involves the non-profit sector, the total expenditures and revenues will be extremely close. In the commercial sector, the totals vary greatly.

However, when the actors, musicians, dancers, administrators, prop suppliers, and tax revenue recipients re-spend those dollars for groceries, clothes, vacations, education and other goods and services, one could attribute this additional economic activity as the "primary indirect" impact of the performing arts.

To document the total value of goods and services produced in the economy, we could then watch the spending of the grocery store industry and the clothing industry, which in turn could be considered the primary direct impacts of those industries. So although our primary concern is the arts, it is useful to consider additional economic activity spurred the arts in determining the overall economic impact of the arts.

When the other forms of impact are also added, such as foreign tourist spending inspired at least in part by American cultural services, and the indirect effects of those dollars (the so-called "induced direct" and "induced indirect" impacts), it is not uncommon to get a resulting total impact of the arts that could be at least 2.5 times more than the original $3.4179 billion.

Nonprofit Performing Arts, 1987
(theater, dance, symphony, opera & other music)

Estimated Direct Impact (Industry Revenues)	$3.4179 billion*	.07% of GNP
Estimated Total Impact (using a multiplier of 2.5)	$8.5448 billion	.17% of GNP
Estimated Total Impact (using a multiplier of 2)	$6.8358 billion	.14% of GNP

*Source: Unpublished tabulations from the 1987 Economic Census of Service Industries conducted by U.S. Bureau of the Census.

As the above example suggests, impact accounting formulas must be employed and interpreted with considerable care.[12] First, it is difficult to accurately calculate the magnitude of the "multiplier" that summarizes the total of these many indirect effects. Even a small overstatement of this multiplier can generate a significant miscalculation. To illustrate, compare the effects of using a multiplier of 2 rather than 2.5: the total performing arts impact would have been $6.8 billion instead of $8.5 billion, or about .14%, rather than .17%, of gross domestic product.

Secondly, it is easy to misinterpret the meaning of, say, a $6.8 billion economic impact. It does not necessarily mean that if the entire arts industry were to collapse that the economy would be $6.8 billion smaller. Spending can be diverted to other products; workers can be trained to move into different occupations; the identity of the "key" industries (and most definitely the identify of the key firms) is expected to shift with changes in consumer tastes, production technologies, the value people attribute to their time, and the degree of interdependence among the world's economies.

The full value of <u>any</u> industry cannot be completely captured by the revenues, output, and employment it generates. Rather, to determine the real value of an industry to an economy, we must look beyond these mere monetary ("pecuniary") measures of impact to the more tangible "real" contributions. In the language of "economic impact studies," all other effects of an industry not easily captured in the multiple expansion of primary direct spending are dubbed "secondary effects."

Ironically, while such effects are not always easily measurable, they might well be the most important. Consider, for example, the impact of the Oregon Shakespeare Festival, which attracts 360,000 people to the town of Ashland, population 12,000. Regardless of the magnitude of any estimated multiple expansion of spending due to festival-related employment and

other direct spending by the theaters involved (i.e., primary impact), it is clear that Ashland could never have grown into a cultural center without the Oregon Shakespeare Festival(i.e., secondary effects).

Furthermore, the traditional economic impact study of an industry should not be confused with a comprehensive "cost/benefit" analysis. Costs are normally ignored in economic impact studies of the arts, which thus only considers one side of the cost/benefit equation. For example, the benefits to a city of tourist spending on a particular cultural event or travel-related industry are rarely compared to the costs of possible increased urban congestion, attendant expansion of police protection and waste collection, and other possible costs of this economic activity. Most studies do not even account for the amount of direct public spending on the arts as a cost.

With regard to other industries, there are clearly cases in which the costs may be so significant as to seriously rival or exceed the measured benefits. Who could read the press reports of the tobacco industry's claimed beneficial economic impact due to jobs created and spending generated in the U.S. economy without considering other effects. It is important to ask how such benefits compare to the associated medical costs and human deficits in terms of reduced life expectancies or increased birth defects linked to tobacco consumption in America? Understandably, readers may be skeptical about any method for assessing the economic contributions of an industry that fails to address the fundamental question of costs as well as benefits.

In fact, we should be concerned about not just how many jobs are being created, but about which jobs are being created. Given that a worker in a bubble gum factory will have the same beneficial "indirect" effects on grocery stores and housing markets as does a worker experimenting with life-saving drug treatments, it is appropriate to move beyond the narrow focus of "economic impact studies" to address the long-run contributions that an industry can make to the economy and society.

Yet before exploring these new ways of looking at the broad impact of the arts, we must first return to a fundamental question: What is the arts industry?

II. DEFINING AN ARTS INDUSTRY

The quintessential economic problem is how to allocate scarce productive resources among virtually limitless wants or desires. The production and consumption of art, no matter how defined, is clearly an economic activity inasmuch as time and material are devoted to its creation rather than to other potential uses, and people are willing to expend their time, physical energy, and financial resources to enjoy and consume the resulting output. The arts have economic value because people exhibit the willingness to sacrifice other opportunities in order to produce and consume it. In this basic economic sense, the arts are indeed little different from corn flakes, even though their intrinsic, aesthetic, emotional, and social value is not captured in such economic dimensions.

Furthermore, the magnitude of economic value created by art is only very imperfectly captured by the familiar measuring stick of money. Economists recognize that the price of a particular product understates its true value. Thus, consumers obtain "consumer surplus" when they are able to pay less for products than the maximum they would be willing to pay. For example, considerable consumer surplus value can be generated by a free concert in the park.

However, retreat into economic philosophy is not required for a meaningful discussion of the economic contributions of the arts. Even on more familiar terrain, the arts are no longer a bit player on the economic stage.

What is the arts industry?

The economics of the arts, as the economics of other human endeavors, narrows or broadens depending on personal interests and the nature of the questions under investigation. As a result of the diversity of activities that the arts bring to mind, it is important to clarify what is meant by the arts and arts industries. The definition of an industry--whether of the arts, transportation or defense--is not self-evident, but must be constructed. Thus, when economists study "agriculture" they must cope with activity as varied as raising hogs and growing soybeans and study inputs as diverse as seed or insecticides in organizations ranging from family to corporate farms. If the "energy" sector of the economy is the topic one must be prepared to shift focus from petroleum reserves to synthetic fuels, and from OPEC to the entrepreneurs experimenting with the harnessing of the sun. The staff of the Interstate Commerce Commission (ICC) must wrestle with the complexities of interconnecting waterways and their effects on truck hauling and railroads. **Therefore, it should** be no surprise that economically the arts industry has at times been defined narrowly in terms of its

segments, such as the United States pipe organ industry or non-profit theater, while at other times, it has been conceived as encompassing the entire "entertainment industry."[13]

The dictionary offers two definitions of the word "industry". According to Webster's Third New Unabridged Dictionary, an industry is a "division of productive or profit-making labor; especially one that employs a large personnel and capital." This definition emphasizes the profit-making aspect and leaves out the non-profit sector, which is an important part of the arts industry.

More instructive is Webster's second definition: "A group of productive or profit-making enterprises or organizations that have a similar technological structure of production and that produce or supply technically substitutable goods,services, or sources of income." This definition is based on similarities in products or production processes, which is much more like an economist's definition of an industry, although an economist would also include market or demand similarities.

The key question from the supply-side is: which producers have similar enough production techniques and capabilities to make them active or potential competitors in the market for customers? From the demand-side, the equivalent question requires an identification of which products and services are close enough substitutes in the minds of consumers to allow for the alternative satisfaction of particular subjective wants.

In the case of the performing arts, Throsby and Withers identify "liveness, joint audience-performer presence, and concern for the skilled presentation of created works of art, with the performed labor contribution being the essential feature of the product."[14] Furthermore, they identify the following particular characteristics of the labor "input" as critical for inclusion in the performing arts: "innate ability, talent, experience, training, and a host of intangible qualities."[15] These considerations alone would generate a relatively narrow industry definition which would eliminate, for example, recorded music, radio and television, purely amateur theatrical performances (lacking the requisite talent and experience), movies, and book publishing. While most sporting events certainly provide the live, joint audience-performer presence and concern for skilled presentations, they would seemingly be eliminated because they do not involve a "created art work," although that terminology itself begs for the clarity of definition.

Typical industry definition in the economics field of industrial organization is broadened by a consideration of demand substitution, and the arts are no exception. Even without the classic, yet non-helpful observation that in a fundamental sense

all goods and services compete for the consumer's limited time, energy and income, there is considerable evidence that the range of demand substitution options is broad enough to justify some of the more inclusive arts industry definitions. Indeed, a national survey study of public participation in the arts (SPPA) indicates that participants in any arts activity tend to be more likely to consume other arts activities than those who have not attended any arts event. This would seem to suggest that different arts activities are viewed as somewhat interchangeable. Thus, as Throsby and Withers observe, "there is no clear gap in the chain of substitutes for the performing arts, enabling us to cordon off an area of demand."[16]

In fact, the National Income and Product Accounts of the United States (U.S. Dept. of Commerce) document consumer spending for the performing arts, motion pictures, and spectator entertainments all under the more general heading of "recreation." It has already been observed that a detailed examination of the "Entertainment Industry" incorporates the performing arts as just one of many economic activities meeting a unique consumer demand.

A common classification identifies four separate but interrelated forms of artistic expression: literary, media, performing, and visual.[17] Table I summarizes the previous discussion about the ways in which government statistics and economists have translated these general art forms into more concrete economic activity comprising the arts industry.

Table 1
Components of the Arts Industry: Four Classifications

Recreation	Entertainment	Copyright	Occupations
Performing Arts	Motion Pictures	Book Publish.	Actors
Motion Pictures	TV/Radio Broadcasts	Music Publish.	Directors
Spectator Ent.	Video Production	Radio/TV	Announcers
	Records/Tapes	Motion Pictures	Architects
	Musical Composition	Video Prod.	Authors
	Live Performing Arts	Theatrical Prod.	Dancers
		Band/Orchestra	Designers
		Records/Tapes	Musicians
			Composers
			Painters
			Sculptors
			Craftsmen
			Photograph
			Teachers

In all cases in Table I, the live performing arts refer to both commercial (for-profit) and non-profit orchestras, theater groups, opera and dance companies. This scheme would distinguish the arts from other entertainment activities by excluding sports,

wagering and gambling, and probably amusement parks from the arts industry label. However, it would seem to include all the others identified by Vogel in his entertainment industry family: movies, television, music publishing, broadcasting, cable and other media, computerized (e.g., home video) entertainment, and the performing arts.

This four pronged classification scheme can also incorporate the "core copyright industries" of book publishing, music publishing, radio and TV broadcasting, motion pictures and video productions, theatrical productions, and records and tapes. Economists have not typically stretched this to include "partial copyright" and related "distribution industries" such as newspapers and periodicals, greeting cards, typesetting and platemaking services, computer programming and software, and advertising, although some of these seem potential candidates for inclusion.[18] These latter activities, however, are on the periphery of the arts industry.

A degree of interchangability or substitution in consumption among some of these alternatives has, in fact, been measured in various economic studies. For example, Gapinski does indeed find evidence for the "lively arts as substitutes for the lively arts" in his technical examination of the "cross-price elasticities" among theater, opera, symphony, and dance performances.[19] Others have been able to document similar substitution relationships between orchestra and ballet,[20] video recorders and cinema attendance,[21] and the media arts and the live arts.[22] There is also documented evidence that an index of broadly defined "entertainment prices" affects attendance at traditionally defined performing arts events.[23]

Based on studies of arts participation patterns, it can also be argued that arts events are more like complementary goods rather than substitutes. For example, media exposure to an arts event may inspire further consumption in terms of live attendance. Similarly, live attendance at one arts event, such as theater, may lead to a later opera attendance. Substantial evidence exists for this "more, more" principal in the analysis of the national Surveys of Public Participation in the Arts conducted in 1982, 1985, and 1992.[24]

These various components of the creative arts industry can be further understood by drawing a distinction between those components that tend to generate the fundamental "subject matter" of the creative arts, and those components that build upon and further distribute that creative output to broader audiences.

For example, as often argued by Harry Hillman Chartrand, the non-profit performing arts, musical composition, and the authoring of books are activities somewhat akin to "basic research" in the natural and physical sciences. Artists engaged

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in writing and performing plays, writing fiction and non-fiction books, and composing new pieces of music are motivated fundamentally to express themselves and communicate ideas and emotions through their work. In some sense they are seeking to discover "artistic truths," or at least novel forms of artistic expression, not unlike the solitary lab work of devoted biologists, chemists, and physicists seeking to uncover "scientific truths."

Sometimes a scientific idea known primarily to fellow researchers reading obscure academic journals is discovered by applied scientists and entrepreneurs and turned into a new labor-saving device, health drug, or dietary supplement generating broad benefits to humankind. Similarly, sometimes the artistic work done on limited budgets by authors, actors, composers, playwrights, and painters is discovered and adapted to wider audiences by movie producers and directors, book publishers, museum curators, video, records and tapes producers, and commercial and cable TV networks. In this way, plays like "Driving Miss Daisy" and "Sarafina!" or a once relatively unknown book like Prince of Tides become international hit movies, while others are turned into television serials. Or composers primarily interested in advancing music theory are sometimes engaged to write the score for a widely distributed musical or the soundtrack for a hit movie drama.

In this way the "narrower" and more financially precarious sectors of the creative arts industry are critical to the triumphs of the flashier export success stories of television, film, and home videos. "Pure" or "basic" scientists often complain that it is harder for them to win research grants than it is for their more "applied" colleagues. A similar dilemma exists in the creative arts industry. Be it science or art, the importance of the basic "researchers" cannot be understated. It is they who provide the seed grains for the eventual harvests in both areas of human advancement.

In summary, there are both practical and conceptual reasons for expanding the definition of the arts beyond the most narrowly conceived "non-profit performing arts" segment. Practically, even the national income accounts view the arts as a form of a more broadly based recreation category of economic activity, and the important legal issue of copyright protection would place the performing arts firmly in a broader category of "intellectual property." Conceptually, even if supply and production considerations arguably tend to narrow the focus of the arts industry, demand substitution considerations clearly argue for more inclusiveness.

Differing Definitions of an "Artist"

While the definitional question of who is an artist remains problematic, it is clear that the Census Bureau and the Bureau of Labor Statistics have identified artistic occupational classes that are broadly consistent with the prior identification of an arts industry that extends beyond the narrow boundaries of the performing arts. Certainly the classification extends beyond the even narrower boundary of the non-profit segment of the performing arts that so often comes to mind when thinking of the arts.

We have now discussed the types of activities potentially included in the arts industry. Another key concept in defining an arts industry focuses on its work force. Thus, a simple answer to the question, "what is an artist?" would be--anyone employed in the arts industry. A more interesting approach is to investigate how the arts labor force has been defined by government agencies and studied by economists so as to further clarify, via the measurement of this key production input, the dimensions of the arts industry.

The U.S. Department of Labor, Bureau of Labor Statistics, regularly reports data on eleven artist occupation groups: actors and directors, announcers, architects, authors, dancers, designers,musicians/composers, painters/sculptors/craft artists/artist printmakers, photographers, teachers of art, drama and music (higher education), and artists "not otherwise classified." This last group is a fascinating amalgam including, among others, magicians, jugglers, puppeteers, ventriloquists, clowns, comedians, impersonators, mimes, acrobats, aquatic performers, and silhouette artists.

It is interesting that two of these classifications, announcers and architects, are not consistently included in the economists' debate regarding the degree to which artist income, properly measured and adjusted for hours worked and other considerations, has really lagged behind that of other educated and professional occupations.[25]

The eleven occupation listing, which is the one most commonly used in economic studies of the artist labor force, is consistent with a fairly broad conception of the arts industry. Especially in light of a broadening of the occupational class of actors and directors to include people involved in theatrical and media productions other than actors and actresses.[26]

For example, the four forms of artistic expression--literary, media, performing, and visual--seem well represented by the occupational listing. Authors are clearly employed in the literary arts, while announcers and some of the actors and directors, as well as some composers, are a part of the media

arts. Dancers, musicians/composers, and actors provide the talent to the performing arts, and the visual arts rely upon the contributions of architects, designers, painters, sculptors and photographers. Arts educators are represented in all four of the art forms.

The eleven occupational listings also cover most, but certainly not all, of the economic activities included in the broad "entertainment industry" schema designed by Vogel. Movie making; the recorded music business; TV, cable, and radio broadcasting; and the performing arts would clearly be prime employers of artistic workers in the occupational listing. The home video portion of "computerized entertainment" should also be included.

The other broad arts industry listing stemmed from the copyright industry studies. Here again, the occupational listing is broadly consistent with the types of economic activities included in the **"core copyright industries"** listing. While there are clearly more categories of workers employed in these **core industries** than those labeled as artistic occupations, the eleven types of artistic workers are clearly a part of the workforce in the following **core industries**: newspapers, periodicals, book publishing, book printing, music and miscellaneous publishing, greeting cards, radio and TV broadcasting, motion picture production, theatrical producers including bands, orchestras, and entertainers, and the manufacture of records and tapes. **However, the** artistic occupations listing lend**s little** support to the inclusion in the arts industry of the other **core industries** of bookbinding, typesetting, platemaking, computer programming and software, and advertising.

At the same time, cultural economist Harry Hillman Chartrand has argued that components of the "partial copyright industries" might be included in the arts industry, and the list of artistic occupations would seem to offer some support for that view.[27] For example, designers are employed in the apparel and house furnishings sectors, and painters and sculptors surely include individuals involved in the creation of precious, and perhaps costume jewelry. Standard Industrial Classification (SIC) code 8711, "engineering, architectural, and surveying services," obviously employs architects, **while** commercial photography and art (SIC 7335) and photographic studios (SIC 722) clearly employ photographers. The modest inclusion of parts of these economic activities in any documentation of the size and significance of the arts industry would be defensible.

Finally, it must be noted that any measurement of artistic employment as done by the Census Bureau is naturally hampered by the vagaries of self-reporting, the ambiguity of terminology **and the tendency for artists to hold other jobs in addition to being a practicing artist.**[28] Underreporting of the size and impact of

the arts industry due to the likely exclusion from consideration of some of the legitimate but "marginal" arts activities such as the partial copyright and related distribution industries above are partly counterbalanced by the questionable inclusion of, for example, kitchen designers and corsage makers in the designer category, go-go dancers and square dance callers in the dancer classification, and technical writers in the author category.[29]

A central complication in defining an artist is the widespread practice of supplementing artistic income with non-arts related income in order to survive financially. For example, Wassall and Alper surveyed New England artists and found that 18.6% of their income (in 1981) was derived from non-arts sources, ranging from 25.7% for dancers to 10.7% for theatre production personnel.[30] Furthermore, "arts-related" income (complementary but not central to artistic creation) is a vital source of income, ranging from 58.2% of total income for choreographers, composers, and playwrights, to only 7.4% for actors.[31] Similarly, a 1990 study of choreographers in four metropolitan areas (San Francisco, Washington, Chicago, and New York) sponsored by the **National Endowment for the Arts** Research Division found that only 60% of the choreographers' income is derived from choreography and the balance is earned through other non-arts jobs.

While these measurement problems bedevil the discussion of the economic importance of the arts in the United States, they are clearly neither unique to this country nor are they limited to the arts industry. **In the case of Canada, for example, they are pursuing a nationwide "Cultural Labor Force Project," which is designed to fill existing gaps in information on the cultural labor force.**[32] Similar ambiguities can be cited for all occupations and all industries. For example, a careful investigation of even the seemingly simple question of who is a farmer would confirm this point.

Recognizing such definitional ambiguities and variations can be a first step toward resolving them and bringing about a common understanding of terms. It may also point to ways in which data collection can be improved. **With these limitations in mind,** one can begin to discuss the dimensions and scope of the arts industry and its economic importance to the American economy.

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III. THE ARTS INDUSTRY AND THE AMERICAN ECONOMY

Facts and Figures

How much of the economic activity in the United States is comprised of goods and services produced by the arts industry summarized in Table 1? While there is no totally precise answer to this question, the following statistics for 1989 in Table 2 provide some perspective.[33]

Table 2
Industrial Output ($ Billions): 1989

Gross National Product:	$5234.0
Arts Industry:	$ 314.5
Literary Arts:	$ 145.6
Media Arts:	$ 147.2
Performing Arts:	$ 14.3
Visual Arts:	$ 7.4

Source: **Estimates based on data obtained from the Bureau of Economic Analysis, U.S. Department of Commerce, and Copyright Industries in the U.S., by Economists, Inc., November, 1990. See Harry Hillman Chartrand, "The American Arts Industry: Size and Significance," Exhibit 5, p. 14, National Endowment for the Arts, 1992.**

These data indicate that in 1989 the arts industry constituted about 6.0% of the American economy. Note by comparison that the Statistical Abstract of the U.S. Census: 1990 (Bureau of the Census, U.S. Department of Commerce) reports the percentages of GNP for the following industries: agriculture 2.1%, construction 4.8%, wholesale trade 6.9%, transportation and utilities 9.0%, retail trade 9.4%, and "all nondurable goods" 8.3%.

In terms of employment, there has been a continuing trend since 1900 for a greater proportion of jobs in the United States to be in the **services sector of the economy, specifically, "non-government services."** For example, such employment has grown from 20.0% of total employment in 1900 to 53.4% in 1989. At the same time, agricultural **employment has dropped over this period from about 38% to 2.6%, similarly, "goods producing" from 38% to 28.1%.** [34]

By and large, the arts activities documented in Table 1 represent "services" rather than more tangible "goods," and the arts have clearly been a significant part of the growth of the non-governmental services sector. In terms of economy-wide employment, the arts sector in 1989 represented about 2.7% of the

total, led by the literary arts (1.3%) and the media arts (.8%) and followed by the performing arts (.4%) and the visual arts (.1%).[35]

How significant is it that the arts employ 2.7% of all workers in the United States? Again, a quick check of the Statistical Abstract reveals that the construction industry employed 4.34% of all workers in 1988, legal services .72%, eating and drinking places 5.32%, health services 6.05%, and state and local government 12.2%.

A particularly compelling and perhaps surprising comparison is that between the arts and the defense industry. Both of these industries are especially good examples of why one should not view production, revenue, or employment as sufficient measures of their importance to the economy or to society. Without an adequate national defense an entire way of life is at risk. Without the creative impulses unleashed by the arts, the salvation of that way of life may be an empty victory. Despite the recognized importance of the defense industry, private sector defense related employment was only 3.0% of total U.S. employment in 1988, while active duty plus civilian department of defense employment was only 2.0% of the total.[36]

Aside from foreign policy considerations, there is enormous concern about the implications for the economy of reducing the size of the defense industry, an industry with no more than 3.0% of total employment. There should be no less concern about the economy-wide effects of the fate of the arts industry, an industry with a similar 2.7% of employment.

In fact, in one sense there should be even more attention paid to the arts industry--it has been growing relative to the rest of the economy, and key parts of it have been significant contributors to a remarkable explosion in the U.S. export of services to the rest of the world.

To get an idea of the relative role that two of the very visible components of the arts industry have played in the past sixty years, note the following data on consumer spending as a percentage of "disposable personal income" in Table 3, and the related data in Table 4 that further breaks down the components of spectator entertainment over this period.[37] Keep in mind that during this period consumer spending was dramatically affected by the development and growth of another segment of the arts industry--television broadcasting.

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Table 3
Consumer Spending as a % of Disposable Income

Category	1929	1947	1970	1975	1980	1985	1990
Recreation	5.30	5.48	5.97	6.16	6.02	6.38	6.94
Spectator Ent.	1.12	1.19	.46	.38	.34	.31	.33
Performing Arts	.16	.11	.07	.07	.09	.09	.12
Motion Pictures	.88	.94	.23	.19	.13	.11	.10
Spectator Sports	.08	.13	.16	.12	.12	.11	.11

Source: James Heilbrun and Charles Gray, The Economics of Art and Culture (1993), p. 14, Table 2.1.

The story told in Table 3 is that, while there has been a steady increase in the role played by recreational spending since 1929, the advent of one segment of the arts industry, television, caused a dramatic change in the relative popularity of other segments of the arts industry, especially motion pictures attended in theaters. Interestingly, the adverse impact of television on the live performing arts was much less than on motion pictures seen outside the home, and the performing arts have been able to catch and even surpass the spending done on both theater motion pictures and spectator sports by 1990.

The remarkable resilience of even this seemingly most "fragile" sector of the arts industry--the live performing arts--is even more clearly displayed in Table 4, which documents spectator entertainment as a percentage of all recreational spending and identifies the components of that spectator entertainment spending.

Table 4
Percentage Breakdown of Consumer Spending

Category	1929	1947	1970	1975	1980	1985	1990
Spectator/Recreation	21.1%	21.7%	7.65%	6.09%	5.67%	4.91%	4.77%
Perform. Arts/Spectat.	13.9	9.3	16.10	18.20	26.90	28.40	35.50
Movies/Spectator	78.9	79.6	49.40	50.90	38.70	35.60	28.20
Sports/Spectator	7.2	11.1	34.50	30.90	34.40	36.00	36.30

Source: James Heilbrun and Charles Gray, The Economics of Art and Culture (1993), p. 14, Table 2.1.

The performing arts have been growing as a percentage of spectator spending since 1947 and by 1990 had overtaken both movie theater and sports spectator spending in the United States. Again, while the performing arts have been booming relative to all spectator entertainment spending, the overall category of spectator spending has been dropping as a percentage of total recreational spending due largely to the development of first television and, more recently, electronic arts activity such as home videos.

Even though spending by the public at movie theaters has been adversely affected by television and home videos, American produced and directed motion pictures and television programming have teamed up to become a potent engine of export growth in an increasingly interdependent world dominated by foreign trade and concern about global competitiveness. As Martin Barnes states in Business Week, "Since 1988, the growth in the services trade surplus has accounted for a staggering 33% of the rise in real gross domestic product, compared to less than 20% attributable to the narrowing of the merchandise trade deficit."[38] Furthermore, in the same issue it is noted that "from 1987 to 1990, the U.S. film industry's real revenues from foreign movie-theater rentals rose 57% from $1.24 billion to $1.94 billion (and) at the same time, its overseas television revenues rose 92% from $1.21 billion to $2.33 billion, its home-video rental revenues rose 95% from $1.23 billion to $2.39 billion, and its foreign pay-TV revenues more than tripled to $320 million."[39]

Such "snapshots" of the economy may have limited value in suggesting how resources should be allocated in the future, but they **do provide** one measure of the importance of particular economic activities at a given time. Remember that just because employment in agriculture was 38.1% of total employment in 1900 did not mean that the U.S. economy would have been well-served by trying to maintain that condition (the 1989 figure was 2.6% of total employment).[40] Similarly, sectors and industries that currently represent a relatively small part of aggregate economic activity may not only be the engine of future job growth but may even be justifiable candidates for nurturing government policies.

Nevertheless, these weaknesses in the application of national income accounting data do not render them useless. On average, the distortions in the data for **most of** the **for-profit** industries in the United States are relatively modest. **Regardless** of deficiencies in the data, there is important informational value to a comparison of the size, composition, and trends of various sectors of an economy.

Beyond Facts and Figures

There is no denying that the arts in America are big business, employing enough workers to rival the important defense industry, helping to lead the charge in service exports, and holding their own relative to sports in consumer spending for spectator recreation.

But impressive as these statistics are, the full importance of the arts to the American economy can only be understood by also examining their role in generating indirect or "external" benefits such as inner city and regional development, contributing to the creation of a talented and productive labor

force, helping to give the U.S. an edge in international competitiveness, and teaching reasoning skills and creativity through arts education initiatives. The arts also serve as a crucial, though intangible community resource, by preserving America's living artistic heritage and by helping Americans to become more aware of the variety of cultural traditions available to them. It is to these aspects of the arts that we will now turn.

Additional Economic Dimensions

Whatever the exact dimensions of the arts industry in terms of employment, revenues, and the value of output produced, it is clear that the arts industry contributes significantly to the American economy. The following discussion will **focus on a central** point **that** economic performance is only very imperfectly measured by the dollar volume of economic activity. **Indeed** the concept of total surplus value (consumer plus producer surplus) is a more important measure of the benefits of an industry's output than just the dollar volume of revenues.

Production Externalities

Traditional economic impact studies evaluate the arts in terms of their direct and indirect (as measured through multipliers) economic impact. Yet a full assessment of the value of the arts should also include a range of external benefits and secondary effects. To capture these positive externalities created by the arts industry, one must look beyond the revenue it generates. In the effort to attract new firms and industries certain factors that affect the production environment are also highly significant. These include a high quality workforce, a well-designed and maintained infrastructure of basic services and transportation networks, and a high quality of life enhanced by a full range of recreational opportunities. The arts have additional economic value because they contribute to this production environment and hence to long-term economic growth and development. These external benefits of the arts are known as production externalities and are listed below:

Table 6

Production Externalities
Human Capital/Better Workers
Regional Development/Tourism
Unique Employment Opportunities/Creativity
International Trade/Exports

Training in the arts and the consumption of art promises to increase the productivity of the American workforce by teaching "lateral" thinking and stressing the increased importance of creative responses to rapidly changing environments. To quote the 1992 U.S. Department of Labor Secretary's Commission on Achieving Necessary Skills,

> "SCANS know-how can be learned in the context of the arts... The theater arts are often thought of as developing speaking, reading, and listening skills. But theater people also know about another domain of the SCANS know-how, **managing the resources** of time, money, space, and people. Participation in school performances teaches students about schedules, budgets, space layout, staffing, and the **interpersonal skills,** such as teaching others and working as a team. **Technology** use is another of the SCANS competencies. Musical instruments are becoming increasingly high-tech. Some synthesized sounds come directly from sophisticated mathematical functions fed into a musical instrument digital interface. **Systems,** the fifth SCANS competency, can be taught in the context of orchestral composition."[41]

The arts **can also be** a vital force in rejuvenating inner cities and central business districts and in promoting tourism. Finally, the arts represent a remarkable export success story, rightfully taking its place among the other important industries maintaining a favorable trade balance with the rest of the world and promising to be an engine of economic growth into the twenty-first century.

The factors that determine economic growth in a region and differential growth rates across regions are complex. In this section we are interested in two primary issues: (1) how do the arts contribute to overall economic development in the United States? and (2) how are the arts useful in encouraging differential growth in geographical areas in special need of economic assistance? The first of these might be called the "efficiency" aspect of development while the second deals with the "distribution" issue. In terms of the distinction between these, we are interested in both the overall size of the economic pie as well as the fairness with which it is cut up and handed around the table.

Economic Development and Growth The fundamental goals of economic development can be viewed as including the following: (1) job creation, (2) tax revenue generation to help pay for necessary publicly provided services, (3) physical revitalization, (4) economic diversification, (5) improvements in the provision of goods and services, and

(6) the creation of uses for otherwise idle and under-utilized resources.[42]

The arts contribute to the growth of the economy, particularly through job creation, because they are labor intensive. A major portion of every dollar spent on the arts goes to pay for the people who make it happen: the artists. However, a significant number of jobs are associated with production of the arts are often part-time and/or low paying. While this so-called "starving artist" phenomenon is the subject of debate among economists, there is firm evidence as to the often part-time status of artists and the wider than average dispersion in artists incomes.[43] The economic pressures on many performing and visual artists have led them to seek less expensive and initially lower quality housing and performance space in relatively undesirable parts of American cities.

Even in a traditional sun-belt, non-pedestrian, and suburban oriented U.S. city like Atlanta, it is artists who are renovating warehouse space in otherwise under-utilized downtown sections and creating attractive lofts, apartments, cafe's and other signs of urban life. While the mayors of Atlanta and other cities call for a revitalization of in-town housing and stable street life, it is the artist among other urban "pioneers" who make the initial sacrifices that might potentially create the necessary critical mass of population necessary for a downtrodden neighborhood to become vital again. Thus the arts are not only an important component of any long term strategy to solidify and diversify the economic base of a city, region or nation, but they have the potential to be especially critical to the revitalization of otherwise stagnant sections of our largest and most troubled cities.

In terms of long run economic development, the two most fundamental factors furthering the attainment of these goals are the quantity and quality of the labor force, and the quantity and the quality of the capital stock. As a result of the fact that a region or a nation's export base will vary over time and be affected by external conditions over which it has little control, it is perhaps even more important to emphasize development strategies that affect factors such as (1) interregional and international capital flows, (2) labor migration and other demographic shifts, (3) changes in product quality, reaction to taste changes and improvement of production processes, and (4) changes in tax structures and regulatory requirements.[44]

Studies have shown that a particularly high return strategy has been investment in public infrastructure, including both "economic overhead capital," and "social overhead capital."[45] Economic overhead capital typically includes transportation networks such as roads, bridges, streets, waterways and airports, as well as fundamental services such as water treatment and

distribution systems, irrigation, power generating facilities, communication networks, and sewage treatment facilities. Social overhead capital is focused on improving "human capital;" i.e., the education, skill, and productivity of the people in a community. Such overhead capital includes social services such as educational institutions, public health facilities, fire and police protection, homes for the aged and the infirm, and parks, recreational and cultural facilities.

The fundamental requirement of any economic unit, be it a nation, state, region or city for ensuring its stability and growth in the face of rapid and sometimes dramatic economic change is the quality of business and consumer services supplying its own local markets. As stated by a prominent contributor to the development debate, Hans Blumenfeld, such industries are "the permanent and constant element, while the 'export' industries are variable and subject to incessant change and replacement; ... it is the 'service' industries .... that are 'basic' and 'primary,' while the 'export' industries are 'secondary' and 'ancillary.'[46] He argues that while a sufficient number of export industries are indispensable for continued economic viability, each specific industry may be considered "expendable and replaceable."[47]

The Arts' Role in Infrastructure and Export Trade **A mere accounting of the size of the arts industry in the United States cannot adequately identify the total economic contributions of this industry when so much that is vital in developing and strengthening the true economic base of this country is missed by those measurements. The arts (1) provide a mutually advantageous, long-term productive way for regions within the country to compete for capital and labor by improving the quality of life and public infrastructure of local communities; (2) serve to enhance the quality of human capital that is the most vital economic resource in a rapidly changing world economy; (3) are leading an export boom in the growing service sector and (4) provide a vehicle for infrastructure improvement and community development.**

The arts are undeniably a part of the important social overhead capital that contributes to the development of a region's inhabitants, as well as of a growing part of the material economy's service sector. This rapidly growing sector of the economy represents to Blumenfeld and others a critical part of the truly basic and primary industry of any geographical area, that which is produced and sold by the people living in a local economy.

The ability of a region to attract labor and capital from outside that area is vital to regional development within the United States. Thus, it is far more productive for the nation as

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a whole to foster interregional competition for resources through strategies to improve public infrastructure than through mere tax "bribes" and other short run, but not fundamentally productive, strategies. Such "productive" competition does not represent a "zero sum game," in which one region benefits and another loses based only on which region could give away the greatest part of its tax base to attract new firms. It represents, instead, a long term strategy of improved productivity for both new firms and existing firms, for current as well as potential labor pools.

One has only to keep abreast of local press commentary to learn how much these fundamental concepts have, in fact, been seeping into public consciousness. Take for example this remarkable commentary by the Atlanta Constitution regarding the move of Chrysler Corporation from its long standing home base of Highland Park, Michigan:

"The only way for a city to hang on to its tax base is to maintain a high quality of life. Sound infrastructure, good schools, affordable housing, and a low crime rate are vital to anchoring old businesses and attracting new ones. For corporations, sentimental attachments mean little in an increasingly competitive world. Short term fixes, such as giving companies tax abatements, are no match for long-term strategies that make communities desirable places to live and work."[48] Or note this headline from the same newspaper later that same week: "Fine arts gaining support as tools to help kids learn." The subheadline notes that "educators find that from storytelling to chamber music, arts bolster schoolwork," and one participant in these programs is quoted as saying, "everybody knows that people learn better by viewing something than by reading about it."[49]

Furthermore, when the New York Times magazine devoted a cover story to the question, "Why Paris Works?" it found that the answer could be found fundamentally in that city's remarkable devotion to maintaining its public infrastructure, ranging from its 4,500 street sweepers and its state of the art street vacuuming (not just street washing) machines, to its devoted care and nurturing of its public monuments and cultural vitality, assisted by generous subsidies from the national government.[50]

In addition to this popular press recognition of the economic benefits of the arts as a form of public infrastructure, economists have written more technical analyses of, for example, "Venice as a Cultural Good," "Cultural Policy in the Economic Development of India," and "The Economic Value of Urban Heritage."[51]

These lessons in economic development and human capital improvement do not depend on academic research to confirm what we have learned by our own observation. Of course, in an increasingly competitive world in which the quality of a nation's

workforce significantly affects its relative economic position even more than it has historically, human capital improvement is more important than ever.

Interestingly enough, it is the very increased competitiveness of the world that provides another critical, and perhaps another surprising role, for the arts industry--a major export industry for the United States to the rest of the world. This has taken two forms. On the one hand, as noted in the Wall Street Journal, U.S. companies training their employees for key assignments abroad are recognizing more than ever the importance of "cross cultural training," in making them productive in other countries. Fully 79% of formal programs for employees relocating abroad stress the "culture, history and background of a country."[52] On the other hand, and more measurably, the arts have in fact become a leader in the export growth of American products and of great value in reducing our international balance of trade deficits.

Services have led the recent surge in U.S. exports, but the U.S. film, television, and home-video segments of the arts industry have helped to lead this charge. While we as a nation are rightfully concerned with the competitiveness of our biotechnology industries, electronic components, engineering and production sectors, engines and propulsion producers, and information technologies in the battle for world trade, we should be no less concerned--and proud--about our achievements in the battle for the attention of the world's population seeking recreation, entertainment, and cultural experiences.

To cite just some of the "good news" trade statistics for the U.S. arts industry, from 1985 to 1990:[53]

1. Theatrical film rentals increased by 179% to the top 15 world markets and total foreign earnings increased by 166%.

2. U.S. made motion pictures earnings increased over this period by 124%, and by 135% in the top 15 foreign markets.

3. The percentage of U.S. films in the "box office shares" of key European markets in 1990 was 89.0% in the United Kingdom, 85% in Italy and Germany, and even 57.5% in culturally nationalistic France.

4. At the same time, the number of foreign films imported into the United States has fallen substantially since 1970, totally just 140 in 1990 as opposed to 324 in 1970.

5. Imports' share of U.S. Theatrical box office dropped steadily from a high of 9.1% in 1973 to 1.6% in 1991.

6. U.S. television programming continues to surge into the top 50 rated programs in key European countries, with U.S. programming representing 47.9% of all entertainment programming in 1991 in Spain, 48.8% in Italy, and 25.8% in France.

7. The U.S. print media and U.S. authors, such as Stephen King, Garrison Keillor and Alexandra Ripley continue to sell remarkably well in foreign markets.

The extension of the American arts into foreign markets has become so threatening to some countries that international trade agreements, such as the U.S. and Canada free trade agreement, make special provisions to protect national arts producers from aggressive American competition. Nor is international competition confined to commercial arts and entertainment. For example, American symphony orchestras constitute many of the top world ensembles and conduct frequent and extensive foreign tours. American dance, theater and opera companies have shown themselves to be innovative and appealing contributions to the stock of performing art around the world.

Consumption Externalities

In addition to these production externalities, arts have consumption externalities. On one hand, these can be indirect economic indicators such as in-kind donations of goods and services and voluntarism. On the other hand, they can be intangible benefits that are normative in character, taking the shape of attitudinal or behavioral elements such as community pride or national prestige.

Indirect Economic Indicators of Value of the Arts

In the case of most goods and services, the benefits of consumption are restricted to the private utility (satisfaction) experienced by those buying and consuming the product. **Individual** consumers of any product almost always are able to avoid paying the maximum amount they would be willing to pay for such consumption (thus enjoying consumer surplus). **Thus,** total private expenditures for the arts (called "earned revenues" to arts producers) always understate the total "value" of their consumption. However, this form of undermeasurement of consumer value is not unique to arts goods and services, but is instead common to the consumption of any product.

Economically, what is unusual about the arts is that certain people are willing to pay more to producers than the amounts they pay in ticket purchases and other forms of direct "earned revenues" to producers. These other forms of voluntary additional payment include individual, business and corporate

contributions of money, goods ("in-kind" contributions) and time, **in other words, contributions, donations, and voluntary action.** As reflections of public sentiment translated through the political system, such additional payments also take the form of local, state and federal government grants. Finally, to the extent that the producers of arts output are themselves deriving "consumption" benefit from their artistic activities, they might be willing to accept less in payment for such services and/or contribute more of their time to such activities than would otherwise be economically "rational." Conceptually, such producer "sacrifice" is an additional form of supplemental "willingness to pay" for expanded arts production.

Such supplemental support is not just the result of financial need in the arts industry stemming from systemic cost problems. For instance, the arts have high fixed costs (especially labor) relative to their market size. Similarly, the arts have limited flexibility with regard to production inputs. For example, the number of musicians an orchestra needs to play a specific piece is essentially the same number necessary when it was composed. Additionally, the arts frequently cannot take advantage of technological change to increase efficiency in the way that other industries can. While such cost problems can spur the quest for supplemental support, not all industries with cost problems will be successful in convincing potential donors that it is in their interest to provide financial help.[54]

It must be recognized that since a portion of these additional payments for the arts are captured in the basic expenditure, earned and unearned revenue and employment data for the arts industry, the degree of understatement of the benefits of the arts is mitigated.

The understatement that does occur comes largely from two types of contributions: **"in-kind"** transfers of goods which are inherently difficult to document and value, and **time** that is contributed by the many volunteers who assist in the production and marketing of arts events. In fact, calculating the value of non-money contributions made to the art ("in-kind transfers") and the value of time that is voluntarily contributed to arts activities would increase the measured importance of the arts substantially. Both forms of contribution represent measures of the value of the arts to U.S. citizens that are not being registered in the gross national product data exhibited in Table 2 and not being measured by traditional economic impact studies.

The understatement of the economic value of the arts caused by these omissions can be quite significant. Assume, for example, that if only 5% of the U.S. population, or 12.5 million people, donated an average of one hour per week to the arts, this would generate 650 million hours of work annually. If this were valued conservatively at the minimum wage rate of $4.25, there

would appear to be an additional $2.76 billion worth of arts activity. Alternatively, to establish perhaps an upper bound to the value of this time, if we valued an hour of volunteer time at $10 (approximately equal to the 1988 average wage rate for "social workers" as documented by the Bureau of Labor Statistics), the dollar value of these external benefits of the arts rises to $6.50 billion.

Similarly, if the same 12.5 million people donated clothing and furniture for stage props to theater groups, painting materials to student visual artists and other types of contributed goods averaging only $100 per year, another $1.25 billion of arts activity that is not currently being registered in the data used in economic impact studies would become evident.

While these figures were based on "reasonable" benchmark assumptions, they happen to be remarkably close to actual data on voluntarism published in the 1989 edition of Giving and Volunteering in the United States.[55] Over the period March 1987 to March 1988 it was reported (Table 1-41) that 390,000 "full-time-equivalent volunteers" lent their time to the "arts, culture, and humanities." Since a full-time-equivalent volunteer is defined in terms of 1,700 hours of volunteering, this translates into roughly 663 million hours of volunteered time, **which is close to the 650 million hours estimated above.**

The value of contributed time can also be underestimated from the producer side. **Artists enjoy being artists, therefore, they may accept below-market wages from producers for their services.** In addition, there is no doubt that many people who engage in arts activity are not being registered in arts employment figures generated by the U.S. Census because they are being counted by their primary occupation, not by their part-time artistic pursuits.

Finally, current measures of arts revenue underestimate the economic value of the arts to the economy due to an understatement of government **support. In addition to** the arts grants provided by all levels of government in the United States, very important indirect federal support provided by the tax deductibility status of most private arts contributions. **Furthermore,** there is evidence that the level of existing tax support is lower than the public is willing to finance. This means, in turn, that traditional economic impact assessments of the arts industry are also underestimates of the arts' real **economic value.**

Carefully designed studies during the 1980's in both Canada and Australia reveal an average willingness to pay for public support for the arts that is generally higher, in some cases significantly higher, than the amount actually provided. For

example, in 1983 the actual amount of per capita government support in Australia was $6, yet a sophisticated survey of public attitudes revealed an average willingness to pay as much as $32.50 per capita.[56] Similar studies in Canada in 1985 indicated that while a majority of taxpayers in Ontario considered the $3.35 per capita level of public support "just right," over 40% of those who considered current support to be inadequate favored increasing the level of support to a median $10 per person. Thus, Ontario taxpayers favored an amount of about $7 per person.[57] Such results suggest that the external benefits of arts activity in those countries are significantly higher than the value reflected in existing financial support levels.

Similarly, public surveys conducted during 1992, reveal that 69% of the American public was willing to support an increase of $5 in taxes to support the arts, while fully 49% would have supported as much as an additional $25 in taxes for this purpose.[58] If this were applied to the current adult population of about 185 million, or 90,650,000 people, it would represent as much as $2.27 billion in additional value of arts activity not being reflected in current revenue figures like those documented above in Table 5.

Non-Economic Benefits of the Arts

Consumer benefits from the arts flow not only to the arts audience but to potential audience members and to the general public in a variety of ways. For example, design improves both the physical environment and the quality of life in the community, just as museums preserve cultural artifacts and heritage for the edification of current as well as future generations. Arts education helps pass on cultural heritage, as well as develop future generations of artists and arts consumers; it can also help shape a more capable work force and foster better social understanding. Such non-economic or societal benefits derived from the arts are not accounted for through revenues or other production factors nor through consumption contributions of time, money or materials in-kind. Examples of such societal benefits are listed below:

Table 8

Intangible Consumption Externalities

Generating Options for Future Consumption
Building Community and National Prestige
Enhancing the Civility of the Population
Preserving Heritage
Serving as Cultural "Research and Development"

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By participating in and enjoying arts activities, audiences help to ensure that the arts will continue to grow and thrive for future generations. Adequate financial support in the present is one way of preserving this option of future consumption, just as arts-related experiences and education in early life "create an understanding and appreciation for the arts that will lead us to participate more as adults."[59]

The arts are also beneficial as a means of promoting community pride and status, whether "community" is defined as a town or region, a social or ethnic group or an entire nation. For example, the Rural Chamber Music Initiative of the National Endowment for the Arts takes chamber ensembles into under-served communities that would otherwise have no access to the arts, thus giving the residents a sense of pride in living in a community with varied recreational opportunities and a more educated and sophisticated population. Similarly, the arts can serve as a sort of ambassador on the international front, helping to foster better relations between the United States and other countries. Cultural exchanges and worldwide touring provide an opportunity for other nations to enjoy American artists and art forms and bring a sense of vicarious pride to the American public.

In addition to promoting national and international prestige, the arts help people from different backgrounds to better appreciate and understand those around them. Artists and arts organizations rooted in African-American, Latino-American, Asian-American and Native American cultures have explored their heritage and perspective on the American experience, thus giving those from outside these cultures a chance to accept and to value this cultural diversity.[60] In fact, the arts are a chief source for preserving these multicultural traditions. Through the continued upkeep of arts institutions, architecture, and other forms of creative expression, the story of our local, national and ethnic heritage is passed along to future generations.

Finally, the creation of art in the non-profit sector serves as a source of "research and development" for commercial arts ventures. Major studio films such as "Driving Miss Daisy" and Broadway productions such as "Angels in America" found their beginnings in the world of nonprofit theater. The corporate sector and the advertising field also draw heavily from the work of the nonprofit fine arts, making "extensive use of the training and talents that are developed by individuals who study the arts."[61]

In addition to these social benefits deriving from the arts, there is also evidence that some individual contributors to the arts do so for uniquely personal reasons, including a desire to enhance their own prestige and status. Sociologists sometimes refer to this as acquiring "social capital."[62] The fact that the arts are a target for the "purchase" of such prestige (or

other private donor benefits) is an indication of their perceived value to the community. Few people seek such prestige by contributing funds to the sock and shirt manufacturers at the local textile mill.

In fact, studies of the motivation of corporate arts donors have identified an interesting array of private motives that illustrate the importance of the external community benefits of the arts. For example, a recent study identifies the following "broad corporate objectives" of arts sponsorship: (1) to contribute to society, (2) to increase public awareness and/or alter public perception of the company, (3) to demonstrate corporate social responsibility to policy makers and stockholders, (4) to aid in staff relations, (5) to help raise employee morale, (6) to assist in staff recruitment, (7) to identify with a particular market segment and improve consumer image of the company, and (8) to assist the long term performance of the company.[63]

What is remarkable about this listing is how it confirms not only the "intangible consumption" benefits of expanded arts activity but also the recognition by firms of the more "tangible" production external benefits. Items (1) (2) and (7) illustrate how societal benefits can be of value to corporations and how corporations can assist their communities in obtaining such rewards.

Resulting from the apparent importance of such community benefits to workers, corporate sponsors also capture the benefits identified in items (3), (4), (5), (6) and (8). Items (4), (5) and (6) reflect one aspect of the beneficial production effects of the arts on an economy--the enhanced morale of workers living in a vibrant community with a high quality of life and associating with an "enlightened" company known to support the maintenance of that quality of life. Such corporate efforts apparently contribute to improved staff relations and easier, less costly recruitment of talented, educated employees. As such, they present no inherent contradiction between expending corporate resources on the arts and enhancing the stockholder's best interest (item (3)) and furthering the firm's long term economic performance (item (8)). Such public spiritedness is not merely altruistic, but is good business in the sense that it generates corporate (and community) benefits greater than the dollar amount of corporate grants and contributions.

It should be recognized that the amount of voluntary contributions from whatever source fails to reflect the full value of the arts due to the "free-rider" problem. Simply stated, "free-riders" occur whenever individuals may benefit from a particular activity without being required to pay for it. The net effect is almost certain to be deficient voluntary support for "public goods" like the arts. In fact, economists identify

this inadequacy in the private philanthropy arena as one of the important motivations for taxpayer support of government subsidies and grants for such products. Potential free riders cannot as easily escape paying a share of the costs of acquiring the benefits of expanded arts activity when tax financing is used.

In summary, a proper accounting for the size of the arts industry in the United States should be adjusted to incorporate some of the "unmeasured" industry "revenues" stemming from contributions of time and commodities as well as the willingness of the public to pay more in taxes to support the arts. But even if these modifications are made, the contributions of the arts industry will be understated if the significant non-economic benefits discussed above are omitted.

Such contributions include the arts as a kind of "basic research" leading ultimately to economically successful "applied" cultural products, such as those that have captured the imagination of the entire world and caused anxiety about American "cultural imperialism". They also include the types of community benefits that have led many corporations to support the arts as a way of increasing their own corporate profitability by attracting and keeping a higher quality workforce and making marketing inroads with targeted consumer groups that value the "social infrastructure" of their communities. In short, the so-called "secondary" economic benefits of the arts industry may well exceed even the substantial benefits more typically stemming from their role as a generator of jobs and spending in the economy.

1. The Two "classic" books were T.G. Moore, The Economics of the American Theater, Durham, North Carolina, Duke University Press, 1968, and its predecessor by William J. Baumol and William G. Bowen, Performing Arts: The Economic Dilemma, New York, The Twentieth Century Fund, 1966.

2. See the papers in the invited session "Application of Theory to the Economics of the Arts," pp.332-346, in American Economic Review, Papers and Proceedings, May 1981; and the session "Economic Issues in the Arts," pp.10-25, in American Economic Review, Papers and Proceedings, May 1986

3. The Economics of Cultural Industries, Volume I of three of the Proceedings of the Third International Conference on Cultural Economics and Planning held April 25-28, 1984, edited by William S. Hendon, et.al., pp. 109-123, and pp. 135-140.

4. Ibid. pp. 157-166; pp. 180-189; pp. 193-203; and pp. 204-209.

5. Ibid., and also C.D. Throsby and G.A. Withers, The Economics of the Performing Arts, New York, St. Martin's Press, 1979.

6. Harold L. Vogel, Entertainment Industry Economics: A Guide foe Financial Analysis, Cambridge, Cambridge University Press, 1986.

7. See "Copyright Industries in the U.S. Economy," Stephan E. Siwek and Harold W. Furchtgott-Roth, for the International Intellectual Property Alliance, Economists Incorporated, November 1990.

8. Business Week, September 21, 1992, p.22.

9. See, for example, Section IV, "Trade in Cultural Goods," in Cultural Economics, edited by Ruth Towse and Abdul Khakee, Berlin, Springer-Verlag, 1992, a compilation of selected papers from the Sixth International Conference in Umea, Sweden in June 1990.

10. Economic Impact of the Arts: A Sourcebook, Denver, National Conference of State Legislatures, 1987.

11. These data are taken from Tables 1A and 1B of "The Arts as an Industry," prepared for the National Endowment for the Arts by the National Conference of State Legislatures, Denver, May 1992.

12. For an extended discussion, see B.A. Seaman, "Arts Impact Studies: A Fashionable Excess," in Economic Impact of the Arts, op.cit., pp. 43-76.

13. See Vogel, op.cit.

14. C.D. Throsby and G.A. Withers, "Measuring the Demand for the Arts as a Public Good," in Economic Support for the Arts , edited by James L. Shanahan, et. al., Papers and proceedings of the Second International Conference, Boekman Foundation et. al., 1983, pp. 37-52. See especially, page 44.

15. Ibid.

16. C.D. Throsby and G.A. Withers, "Measuring the Demand for the Arts as a Public Good," in Economic Support for the Arts edited by James L. Shanahan, et. al., Papers and proceedings of the Second International Conference, Boekman Foundation et. al., 1983, pp. 37-52. See especially, page 44.

17. Ibid.

18. Harry Hillman Chartrand, ibid., reports "weighted" arts industries with weights equal to the "arts factors" developed by the U.S. Copyright Office.

19. See, James H. Gapinski, "The Lively Arts as Substitutes for the Lively Arts," pp. 20-25, in AEA, Papers and Proceedings, op.cit., 1986.

20. See, Marianne Victorious Felton, "On the Assumed Inelasticity of Demand for the Performing Arts," Journal of Cultural Economics, Volume 16, No.1, June, 1992, pp.1-12.

21. See Samuel Cameron, "The Impact of Video Recorders on Cinema Attendance," Journal of Cultural Economics, Volume 12, No. 1, June, 1988, pp. 73-80.

22. See David Waterman, et. al., "Overcoming Barriers to the Live Arts: Can the Media Compensate, The Journal of Cultural Economics, Volume 15, No. 2, December 1991, pp. 19-40, and also, David Garvin, "Blockbusters: The Economics of Mass Entertainment," Journal of Cultural Economics, Volume 5, No. 1, June 1981, pp.1-20.

23. See Fay Ross Greckel and Marianne Victorious Felton, "Price and Income Elasticities of Demand for the Arts: A Case Study of Louisville," in Economic Efficiency and the Performing Arts, edited by Nancy K. Grant, et.al., Papers and Proceedings of Forth International Conference, Association for Cultural Economics, 1987, pp.62-73.

24. Research Report #27, Faucett/Robinson, p.

25. For further discussion of this issue, see for example Randall Filer, "The Economic Condition of Artists in America," in Cultural Economics '88: An American Perspective, edited by Douglas V. Shaw, et.al., Papers and Proceedings of the Fifth

International Conference, Association for Cultural Economics, 1989, pp. 63-76, and also Randall Filer, "The Starving Artist-Myth or Reality: Earnings of Artists in the United States," Journal of Political Economy, 94 (February 1986), pp. 56-75.

26. See "Artist Employment in 1986," Research Division, National Endowment for the Arts," Journal of Cultural Economics, Volume 12, No 1, June 1988, p. 81.

27. Hillman-Chartrand, op.-cit.

28.Such measurement problems are hardly limited to the United States. The well-known phenomenon of different criteria for defining an occupation yielding different numerical results is nicely demonstrated using Finnish data, where the number of "writers" in 1984 ranged from 1,149 (measured by registrants for state grants or members of a professional association) to 350 (measured as persons taxed as professional writers). Intermediate results were obtained using the criterion of "published writers within the past 5 years" (715 people), and those self-reporting as a writer or a critic in the census of 1985 (460 people). See Ritva Mitchell and Sari Karttunen, "Why and How to Define an Artist: Types of Definitions and Their Implications for Empirical Research Results," in Towse and Khakee, op.cit., pp. 175-186.

29. See Filer, in Cultural Economics '88, op.cit., p. 64.

30. Gregory H. Wassall and Neil O. Alper, "Determinants of Arts' Earnings," in The Economics of Cultural Industries, edited by William S. Hendon, et.al., Proceedings of the Third International Conference on Cultural Economics and Planning, The University of Akron, 1984, pp. 213-230.

31. Wassall and Alper, ibid, pp. 216-218.

32. See Cultural Counts: Newsletter from the Cultural Labor Force Project, Vol. 1, No. 1, Spring 1993, pp. 1-4.

33. These Bureau of Labor Statistics data are conveniently presented in Table 2.2 of Ronald G. Erenberg and Robert S. Smith, Modern Labor Economics: Theory and Public Policy, Forth Edition, Harpers-Collins Publishers, 1991.

34. Ehrenberg and Smith, op.cit., Table 2.2.

35. Figures are taken from Hillman-Chartrand, op.cit., Table 2 on Employment.

36. These data are taken from Table 2, pp. 36-37 of David P. Whitehead, "FYI: The Impact of Private-Sector Defense Cuts on Regions of the United States" Economic Review, Federal Reserve Bank of Atlanta, March/April, 1991.

37. These data are taken from Chapter 2, James Heilbrun and Charles Gray, The Economics of Art and Culture, Cambridge University Press, 1993.

38. Business Week, September 21, 1992, p.22.

39. Ibid.

40. These Bureau of Labor Statistics data are conveniently presented in Table 2.2 of Ronald G. Ehrenberg and Robert S. Smith, Modern Labor Economics: Theory and Public Policy, Forth Edition, Harper-Collins Publishers, 1991.

41. U.S. Department of Labor, "Learning and Living: A Blueprint for High Performance; A SCANS Report for America 2000". Secretary's Commission on Achieving Necessary Skills (April 1992) p. 37.

42. This list could be generated from the reading of many articles in the vast literature on regional development. See, for example, Roger Bolton, "Regional Econometric Models," Journal of Regional Science, Vol. 25, No. 4, 1985, pp. 495-520, and Literature, Number 20, December 1991/March 1992.

43. For an example of a study that addresses the "starving artist" phenomenon, see Ruth Towse, "The Earnings of Singers: An Economic Analysis," in Towse and Khakee, op.cit., pp. 209-220.

44. Again, these observations are central to those holding the view that demand driven "basic industry" models of regional development miss the essential point about the importance of more "supply-side" factors in determining long run economic development. For an especially clear recent review of this issues, see Andrew C. Krikelas, "Why Regions Grow: A Review of Research on the Economic Base Model," Economic Review, Atlanta Federal Reserve Bank, July/August 1992, pp. 16-29.

45. See Randall W. Eberts, "Public Infrastructure and Regional Economic Development, " Economic Review and Regional Economic," Economic Review, Atlanta Federal Reserve Bank of Cleveland, Vol. 26, No. 1, 1990 Quarter 1, pp. 15-27.

46. Hans Blumenfeld, "The Economic Base of Metropolis," in The Techniques of Urban Economic Analysis, edited by R.W. Pfouts, West Trenton, N.J., Chandler Davis Publishing, 1960, pp. 229-277.

47. Ibid.

48. Atlanta Journal Constitution, August 17, 1992.

49. Ibid., See also the interesting paper by Michael Hutter, "Music as a Source of Economic Growth," in Economic Efficiency and the Performing Arts, edited by Nancy K. Grant, et.al., Papers and Proceedings of the Fourth International Conference Association for Cultural Economics, 1987, pp. 100-117.

50. See Steven Greenhouse, "Why Paris Works," New York Times Magazine, July 19, 1992.

51. See Gianfranco Mossetto, "A Cultural Good Called Venice," in Towse and Khakee, op.cit., pp. 247-256; J.S. Narayan Rao, "Cultural Policy in the Development of India," and Margot G. Van Den Berg-Mey, "The Economic Value of Urban Heritage," both in Paying for the Arts, edited by William S. Hendon, et.al., Papers and Proceedings of the Fourth International Conference, Association for Cultural Economics, 1987.

52. Wall Street Journal, July 25, 1992

53. See Stephen E. Siwek, "The Dimensions of Export of American Mass Culture," Economists Incorporated, Washington, D.C., February 25, 1992.

54.On the other hand, significant cost problems are not an essential condition for there to be a willingness to subsidize, privately or publicly, a particular product. Regardless of cost conditions the simple rule is that when you subsidize something you get more of it, and when you tax it you get less. Products generating the external benefits listed in Table 6 will, thus, be candidates for subsidization rather than taxation, even when their producers have no difficulty in being "self-supporting." Because such products would be produced in deficient quantities (even if at a private profit) compared to what is "socially optimal," the "earned revenues" would be an inadequate measure of the true economic value of such products to the economy.

55. Published annually by Hodgkinson, Weizman and the Gallup Organization. See also Dimensions of the Independent Sector: A Statistical Profile, published by the Independent Sector, Washington, D.C., 1989.

56. C.D. Throsby and G.A. Withers, "Measuring the Demand for the Arts as a Public Good," in Economic Support for the Arts edited by James L. Shanahan, et. al., Papers and proceedings of the Second International Conference, Boekman Foundation et.al., 1983, pp. 37-52. See especially, page 44.

57. See Edwin G. West, Subsidizing the Performing Arts, Chapter 9, Measuring External Benefits," Ontario Economic Council, 1985. Seer also William G. Morrison and Edwin G. West, "Subsidies for

the Performing Arts: Evidence on Voter Preference," Journal of Behavioral Economics, 1989.

58. Harris polls....

59. Richard J. Orend, Socialization and Participation in the Arts (Washington, D.C.: National Endowment for the Arts, Research Division Report #21, 1989), p. 5.

60. National Endowment for the Arts, The Arts in America, 1992 (Washington, D.C.: National Endowment for the Arts, November 1992), p. IV-2.

61. Elizabeth Murfee, The Value of the Arts, (Washington, D.C,: President's Committee on the Arts and the Humanities,n.d.), p. 20.

62.Paul J. DiMaggio and Michael Useem, "Social Class and Arts Consumption," Theory and Society, Vol. 5 (1978), pp. 141-161.

63. See Normand Turgeon and Francois Colbert, "The Decision Process Involved in Corporate Sponsorship for the Arts," Journal of Cultural Economics, Vol. 16, No. 1, (June 1992), pp. 41-52, especially, p. 47.